



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

**Contact: Michael Goins**  
[Michael.Goins@ky.gov](mailto:Michael.Goins@ky.gov)  
**502.564.5841**  
**502.209.2867**

**Harmon Releases Audit of Breathitt County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Breathitt County Fiscal Court for the fiscal year ended June 30, 2021. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor’s letter to communicate whether the financial statement presents fairly the receipts, disbursements, and changes in fund balances of the Breathitt County Fiscal Court in accordance with accounting principles generally accepted in the United States of America.

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

During the audit, significant risks were identified, including failure to maintain sufficient supporting documentation and accounting records, not having segregation of duties, and management override of controls. Due to the risks identified, we were unable to perform sufficient audit procedures to overcome the risk of material misstatement. Therefore, we cannot issue an opinion on the Breathitt County Fiscal Court’s financial statement or give reasonable assurance the financial statement is free from material error or fraud.

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statement.

The finding will be referred to the Kentucky Department for Local Government.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following finding:

**The Breathitt County Fiscal Court failed to implement and maintain an effective internal control environment:** During our audit, significant risks were identified, including failure to maintain sufficient supporting documentation and accounting records, a lack of segregation of duties, and management override of controls affecting the financial statement and the expenditures of federal awards. Due to the county's failure to maintain adequate accounting records, and other failures noted below, we were unable to perform sufficient audit procedures to overcome the significant risks. Therefore, we cannot issue an opinion on the Breathitt County Fiscal Court's financial statement and on compliance for each major federal program or give reasonable assurance the financial statement and the schedule of expenditures of federal awards are free from material error or fraud.

In the audit procedures we were able to perform, we noted the following issues:

- Failure to perform accurate reconciliations. The payroll account was not properly reconciled and has a (\$44,449) balance.
- Tax obligations not paid timely. County and local occupational taxes were not paid timely. In addition, some 941's were paid late at the end of year.
- Failure to maintain accounting records. The county failed to maintain proper accounting records for the justice center corporation fund.
- Failure to prepare financial statement timely. The treasurer did not prepare an annual settlement in accordance with KRS 68.020.
- Failure to prepare an accurate Schedule of Expenditures of Federal Awards (SEFA).
- Disbursements Issues –
  - No segregation of duties and insufficient review and approval of disbursements.
  - Purchase orders were not used consistently.
  - Failure to maintain supporting documentation - Receipts supporting credit card transactions were not kept.
  - Three transactions did not have adequate documentation to support the disbursement.
  - Purchase orders were not issued for all disbursements and nine invoices tested were not paid within 30 days.
  - Proper bid documentation was not properly maintained for six transactions that exceeded the county's administrative code bid threshold of \$20,000.
  - An encumbrance list was not maintained.
- Payroll Issues –
  - The county did not approve a current year annual pay rate list.

- The judge was paid more than the statutory maximum.
- Lump sum payments were made to two employees: one for maintaining fiscal court minutes and the other for videoing the court meetings. Also, lump sum payments were made in the amount of \$30 to employees for business use of personal cell phones.

The Breathitt County Fiscal Court did not provide sufficient oversight for management's day-to-day financial activity of the county. Without sufficient oversight, management did not follow established internal control procedures or ensure compliance with state and federal laws and regulations.

The Breathitt County Fiscal Court's current practices could create an environment for potential undetected material misstatements in the financial statements caused either by error or fraud. The noted weaknesses could affect the fiscal court's ability to ensure that financial data is recorded, processed, and reported in an accurate and reliable manner and ensure that assets are sufficiently safeguarded. If the Breathitt County Fiscal Court continues these poor financial practices and does not improve the internal control structure, taxpayer monies will continue to be at risk. In addition, various local and state agencies that rely on and monitor the financial and program activity of the Breathitt County Fiscal Court cannot rely on, or have any confidence in the reports submitted by the Breathitt County Fiscal Court.

Proper accounting procedures and internal controls require that financial statements be supported with accurate underlying accounting records. Strong internal controls over financial reporting are vital in ensuring the fiscal court's financial statement accurately reflects the financial activity of the fiscal court and ensures compliance with applicable state and federal laws and regulations. Additionally, complete, and accurate financial records can ensure expenditures are made only when sufficient funds are available, and receipts are properly recorded.

In addition, 2 CFR 200.303 states in part, "[t]he non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

We recommend the Breathitt County Fiscal Court provide sufficient management oversight of the day-to-day financial activities of the county. We further recommend the fiscal court improve its overall control environment in order to ensure sufficient accounting records are maintained to support transactions, accounts are reconciled, and bills are paid timely, and duties are adequately segregated to safeguard public assets. Only with a strong internal controls system can the fiscal court prepare and ensure that complete and accurate financial reports are completed and that the county is in compliance with each major federal program's guidelines. This finding will be referred to the Kentucky Department for Local Government.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The Breathitt County Fiscal Court has hired a new County Treasurer since the completion of the 2021 audit who will ensure stronger internal controls are*

*maintained in her official capacity and will be working with additional staff members, such as the Finance Officer and Occupational Tax Administrator, to segregate duties in a more controlled method. The newly hired County Treasurer will work to resolve the following issues by the end of the calendar year in the following manner.*

- *Failure to perform accurate reconciliations - the new Treasurer has already begun to perform accurate reconciliations at the end of each month.*
- *Tax obligations not paid timely - the new Treasurer has already implemented a system for paying tax obligations by the deadline.*
- *Failure to maintain accounting records - the Former Treasurer began the process of reporting & record maintenance for the Justice Center Corporation Fund and the new Treasurer is continuing with this reporting method. This was implemented at the end of 2022.*
- *Failure to prepare financial statements timely - the new Treasurer will complete the annual statement in accordance with KRS 68.020 in a timely manner.*
- *Failure to prepare an accurate Schedule of Expenditures of Federal Awards (SEFA) - the new Treasurer will complete SEFA's accurately.*
- *Disbursements issues:*
  - *Segregation of duties is currently being reviewed and the new Treasurer is establishing a process for review and approval of disbursements that will allow for stronger internal controls. New system will be in place by the end of the calendar year.*
  - *The Breathitt County Fiscal Court has also begun utilizing [software name redacted] as the primary accounting software which will allow for more consistent tracking of purchase orders and permit better tracking of obligated expenses.*
  - *Supporting documentation will be kept for all transactions, including credit card transactions.*
  - *Invoices will be paid in a timely manner - great strides have already been made in this area with the hiring of the new Treasurer but will continue to improve during the remainder of the calendar year 2023.*
  - *The Breathitt County Fiscal Court adopted the KY Model Procurement code in August 2023. With the hiring of a new Applicant Agent in January 2023 and a new Treasurer in July 2023 proper bid documentation is already being maintained and procurement policies are being followed.*
  - *An encumbrance list will be maintained by the new Treasurer.*
- *Payroll issues:*
  - *Annual pay rate lists will be maintained & approved at the first regular meeting of the Breathitt County Fiscal Court each January.*
  - *New County Treasurer will ensure that payments moving forward do not exceed statutory maximums.*

- *All lump sum payments made to employees will be issued using W2's, moving forward, beginning in November 2023.*

The audit report can be found on the [auditor's website](#).

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